

## Institutions in history: bringing capitalism back in

Streeck, Wolfgang

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MPIfG Discussion Paper 09/8

**Institutions in History**  
Bringing Capitalism Back In

Wolfgang Streeck



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**Institutions in History: Bringing Capitalism Back In**

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The author is Director at the Max Planck Institute for the Study of Societies.  
streeck@mpifg.de

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Paulstr. 3 | 50676 Cologne | Germany

Tel. +49 221 2767-0  
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## Abstract

The paper explores possible frontiers of historical-institutionalist analysis. It argues three points: that progress will require a return from a static to a dynamic perspective in which change is no longer a special case but a universal condition of any social order; that theory must not *a priori* rule out the possibility that institutional change may be more than just random fluctuation, and that it could instead be part of a transition from one state of development to another; and that capturing the dynamic nature of social institutions – and of social order in general – will require an analytical framework that is adapted to the historical specificities of concrete social formations. Central concepts around which future work in institutionalist political economy may be organized are suggested to be history, development, evolution, and capitalist development. The general idea is that social science stands to benefit, not from ever-advancing abstraction and generalization, but on the contrary from fitting its theoretical template to the historical specificity of the society it is dealing with.

## Zusammenfassung

Der Aufsatz untersucht mögliche Entwicklungslinien historisch-institutionalistischer Forschung in der politischen Ökonomie. Drei Thesen werden vorgestellt: (1) Theoretischer Fortschritt erfordert eine Rückkehr von statischen zu dynamisch-historischen Analysen; (2) Theorien dürfen nicht von vornherein die Möglichkeit ausschließen, dass institutioneller Wandel mehr ist als eine Folge zufälliger Fluktuationen in einem konstanten Merkmalsraum und dass es sich stattdessen um einen Übergang von einem Entwicklungsstadium zum anderen handeln könnte; (3) eine Rückbesinnung auf den dynamischen Charakter sozialer Institutionen, und sozialer Ordnung allgemein, erfordert einen Ansatz, der den historischen Besonderheiten konkreter Gesellschaftsformationen Rechnung trägt. Als zentrale Begriffe künftiger institutionalistischer Forschung in der politischen Ökonomie werden Geschichte, Entwicklung, Evolution und kapitalistische Entwicklung behandelt. Fortschritte in den Sozialwissenschaften werden nicht durch immer weiter vorangetriebene Abstraktion und Verallgemeinerung erreicht, sondern im Gegenteil durch die Spezifizierung ihrer theoretischen Begriffe nach Maßgabe der historischen Besonderheiten der jeweils untersuchten Gesellschaft.

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Political economy, in the widest sense, is the science of the laws governing the production and exchange of the material means of subsistence in human society ... The conditions under which men produce and exchange vary from country to country, and within each country again from generation to generation. Political economy, therefore, cannot be the same for all countries and for all historical epochs. (Engels 1947[1878], Part II, Ch. 1)

Classical social science explored how the modern way of life grew out of the past, and what this might imply for the future. Both early sociology and early economics studied in one the *functioning* and the *transformation* of the emerging political-economic institutions of capitalist society. In the writings of Marx, Durkheim and Weber – even in Adam Smith, and certainly in Schumpeter – static and dynamic analyses were inseparable: The way modern institutions worked was explained in terms of their location in a historical process, while the way that process would continue was assumed to be driven by institutions' present functions and dysfunctions.

The modern social sciences, in comparison, tend to be satisfied with a more static perspective. Empirical observations are organized into abstract concepts and property spaces that supposedly apply to all human societies at all times, without allowing for differences by historical or geographic location.<sup>1</sup> Clearly, the search for historically universal and invariant laws reflects the model of the physical sciences, which are mostly comfortable assuming that they are dealing with an invariant, ahistorical nature. Another reason may be identification with that powerful disciplinary aggressor, modern economics – which, in mimicking eighteenth-century mechanics,<sup>2</sup> has long ceased to add indices of time and place to the supposedly universal principles it claims to discover.

A static approach also prevails in the comparative study of institutions, and sometimes even among those who consider themselves contributors to what is called “historical institutionalism.” This is not difficult to understand. Comparative institutionalism as a theoretical concern in politics and political economy emerged out of a critical response to two dominant streams of social science in the 1960s: pluralist industrialism and orthodox Marxism (on the following see Streeck 2006). Both advertised themselves as the-

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- 1 I define a property space as a finite universe of properties, or dimensions of measurement, conceived as variables with a range of possible values. It is populated by units, or cases, which are discrete combinations of variable or constant properties. Units and their properties are related to other units and properties in unknown but in principle knowable ways, with a change in the value of an “independent” property “causing” proportionate change in a “dependent” one. Theory is to make sense of measurements taken in empirical research of the variable properties of units, by establishing the general principles that govern how properties are related to each other. Theory is general to the extent that it succeeds in subsuming observed units and measurements under a set of universally applicable categories, properties and relations.
- 2 Adam Smith's favorite discipline as a university teacher was – Newtonian – astronomy.

ories of political-economic change, and each offered its own grand historical narrative. Pluralist industrialism (Kerr et al. 1960) – or more generally, modernization theory – told of impending worldwide convergence somewhere between the political-economic models of the U.S. and the then-U.S.S.R., implying an end to ideological politics as one knew it at the time, and its replacement with rational technocratic administration of the constraints and opportunities of industrial modernity. Orthodox Marxism, by contrast, predicted a gradual but irreversible decline of capitalism as a result of its own success, with an ever-growing organic composition of capital as the ultimate destiny and fate of the capitalist accumulation regime. Comparative politics and institutionalist political economy were rightly skeptical of both. Arguing against pluralist industrialism, they insisted on the continuing significance of politics as a collective agency and as a source of diversity in social organization. And in contrast to orthodox Marxism, they emphasized the capacity of the social institutions into which modern capitalism is organized – including the state – to modify and even suspend the alleged “laws of motion” of the capitalist accumulation regime.

In the process, however, comparative institutional analysis lost sight of the two main subjects of social science since its rise in the nineteenth century: the historical dynamics of the social world and the evolution of capitalism. In a healthy reaction against the implied teleological determinism of the leading macro-sociological paradigms of the 1950s and 1960s, what had begun as an investigation of the underlying social and economic forces driving the development of modern society turned into a *comparative statics* of individual socioeconomic institutions – mostly but not systematically located in contemporary capitalism. More often than not, comparative institutionalism turned into pseudo-universalistic “variable sociology”: If you have centralized collective bargaining and an independent central bank, you can expect an inflation rate lower or higher than that of countries whose institutional *ameublement* is different. The fact that most of the cases under examination were confined to a very small universe in time and space – that most societies never had a central bank – did not seem to matter. “Historical” institutionalism meritoriously added policy legacies and institutional pasts to the set of variables that were routinely considered when trying to account for the structures and outcomes of political-economic institutions. Typically, however, it was not history that was brought into play but – as in the study of “path dependency” – the costs of change as compared to its expected returns (Arthur 1994; Pierson 2004).

The present paper is an attempt to outline what I believe will – or in any case should – be the future frontiers of institutionalist analysis in political economy. In particular, I will make three points. First, I will argue that progress in comparative institutional analysis will require a return from a *static* to a *dynamic* perspective. Developing such a perspective will be possible, I believe, if we use current work on institutional change as a starting point, drawing on its core concepts for an approach in which change is no longer a special case but a universal condition of any social order. In effect, this will eradicate the distinction between institutional statics and institutional dynamics, conceived of as different states of the world requiring different conceptual frameworks.

Second, and related to this, I will discuss how individual institutions and their comparative analysis might be placed in a broader systemic context by locating them in a structured historical process. The question that will need to be addressed here is whether our theories and methods have the capacity to detect regularities in the continuous transformation of social institutions, or whether our justified suspicion of teleological accounts of history as unidirectional “development,” with the various implications that have been attached to them in the past, requires us to overlook the forest, if there be one, and recognize only single trees. Is institutional change just random fluctuation, or can it be a transition from one state of development to another? In this context, I will revisit the old issue of historical direction and “progress” that dominated nineteenth-century social science and continued to be present until the 1960s, when it was finally abandoned as intractable or politically incorrect or both.<sup>3</sup> The theoretical problem behind this is, of course, that of the apparently perennial tension between historical and systematic explanations in the social sciences, or between agency and contingency on the one hand and possible “laws” of historical change on the other. The difficulties that we encounter here are so enormous that even Max Weber shied away from them – with the result that much of modern social science feels excused if it prefers to ignore them.

Third and finally, I will suggest that capturing the inevitably dynamic nature of social institutions – and of social order in general – will make it necessary to move beyond the universal and timeless concepts that much of social science still believes are required for scientific respectability, to an analytical framework that is adapted to the historical specificities of concrete social formations.<sup>4</sup> In the case of the political economy of contemporary societies, the social formation in question is modern capitalism, just as it was in the nineteenth century when social science originated. In the same way that economic action is always “embedded” in a society, I argue that institutional analysis of the contemporary political economy, comparative or not, should be situated within the context of a substantive theory of capitalism,<sup>5</sup> to be informed and enriched by it as well as contributing to its improvement. The general idea is that social science, perhaps unlike some of the natural sciences, benefits not from ever-advancing abstraction and generalization, but on the contrary, from fitting its theoretical template to the historical specificity of whatever society it is dealing with.

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3 One could also suspect that as the Marxist vision of historical development finally fell into disrepute, the American alternative seemed so unpalatable by the end of the 1960s that historical philosophy in general was avoided.

4 In other words, as will become more apparent below, I think that the quote from Friedrich Engels that introduces this paper is still of the highest methodological significance.

5 For an extended argument to this effect, see Streeck (2009), in particular Chapter 17.



## 1 Institutional dynamics

To clarify what I mean by a dynamic perspective on institutions, I will begin – for reasons that will become apparent shortly – with the frequently made distinction, often just implicit, between marginal and “real” institutional change. This distinction is of no small importance. Theoretical as well as political debates often become mired in the question of whether an observed or imagined change in the properties of a given institutional arrangement will cause it to be replaced by something new or, on the contrary, stabilize it: whether, in other words, the change is revolutionary or reformative in nature. To many, the only way to settle such disputes appears to be by definitional fiat, treating it as a matter of convention whether or not a given characteristic is central or peripheral to a specific institution or social order. For example, one of the main themes in Tocqueville’s late masterpiece on the *ancien régime* (Tocqueville 1983 [1856]) is whether it was the monarchy or administrative centralization that was the defining element of the institutional structure of pre-revolutionary France. Suggesting that it was the latter, Tocqueville concluded that in spite of all the bloodshed and the grandiose rhetoric, the rupture caused by the Revolution was far less significant than his contemporaries believed.

However, treating the continuity or discontinuity of a social order as a matter of definition is not always satisfactory, if only because definitions are ultimately arbitrary and everyone can feel free to stick to his own. The result tends to be fruitless debates of the sort of whether a glass is half full or half empty, with the answer depending on one’s point of view or the mood of the day. Steven Krasner’s seminal article on sovereignty and the modern state system (1988), which marked a major step in the revival of the institutionalist tradition, points to a possible answer by suggesting that social systems normally exist in a state of equilibrium, with change occurring only occasionally, mostly as a result of exogenous shocks. “Real” change may then be recognized by the fact that it is rare and catastrophic, like defeat in war and subsequent conquest; whereas what others might consider incremental or gradual change serves in fact to defend and restore an existing order against environmental disturbances that are not strong enough to cause the system to break down. The upshot is that social institutions change by moving through a discontinuous sequence of “long periods of either relative stasis or path-dependent change” (Krasner 1988: 74), “punctuated” by brief moments of rapid re-organization for a new phase of protracted stability.<sup>6</sup>

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6 The concept of “punctuated equilibrium,” which Krasner uses to capture what he regards as the dynamics of institutional change, is taken from an important dissident stream in evolutionary biology (Eldredge 1985; Eldredge/Gould 1972; Gould/Eldredge 1977). Krasner’s article still represents one of the most convincing proposals as to how to make Darwinian evolutionary theory fruitful for the social sciences. In evolutionary biology, the notion of punctuated equilibrium is intended to account for the fact that the strict continuity, or gradualism, in the development of the life forms that the logic of Darwin’s theory required is not borne out by the fossil record (e.g., the mystery of the “Cambrian explosion”). Darwin insisted – and had to insist – that this could only have been because the fossil record is incomplete, for sound reasons of geology and natural history. By contrast, opponents of “Darwinian fundamentalism” (Gould 1997) suggest

Krasner's model identifies "real," i.e. transformative change, with rapid, discontinuous, non-fluid change in response to an exogenous shock. In this way he makes it empirically distinguishable from trivial, superficial, marginal, or restorative change, which may be recognized as such by the fact that it is gradual. The problem with this approach is that it runs counter to the observation that not only abrupt but also gradual change may have profound enough consequences to justify considering an institution or a social system to be fundamentally transformed by it. In historical institutionalism, the notion of *gradual transformative change* was first advanced in the work of Kathleen Thelen (1999, 2002). With the concepts of "conversion" and "layering," Thelen offered two stylized, ideal-typical accounts of change processes, drawn from observation rather than from theory, which have in common that they take place slowly and incrementally and do not depend on exogenous shocks to get started. Thelen's re-conceptualization of institutional change opened up a perspective for institutional analysis on a type of change that is *both continuous and fundamental*, allowing for a much more dynamic concept of institutions than is possible in the "long stability-short rupture" model of punctuated equilibrium. It is important to note that conversion and layering were not meant to be an exhaustive typology. In joint work, we (Streeck/Thelen 2005) later added three more processes of gradual-cum-transformative institutional change: "drift," "displacement," and "exhaustion," while leaving open the possibility that others may yet be found and stylized in comparable ways.

Rather than discussing the five types of incremental transformative change in detail, I will limit myself to noting that in all of them, the mechanism that makes for continuous revision of social institutions is their enactment. Institutions are norms that regulate social behavior; they are realized and reproduced in practice through human agents applying them to their specific situations. Such enactment, as we have pointed out (Streeck/Thelen 2005), cannot be and never is mechanistic. The reason for this is that the conditions under which social rules are supposed to apply are inevitably unique and vary in time, due to the fact that the world is more complex than the principles we have devised to make it predictable. This forces actors to apply rules creatively, in the process developing them further by modifying them. Moreover, social actors are far from being norm-following machines; in fact, they command a defining capacity to reinterpret or evade rules that are supposed to apply to them. Both creative modification and cunning circumvention are a permanent source of disturbance – and, from the perspective of the institution – of random variation from below, with the result that the reproduction of social institutions through their enactment is always and inevitably *imperfect*. Time is crucial in this since in all five mechanisms of gradual transformation through imperfect reproduction, change accumulates only slowly, as a by-product of actors following rules *in their own ways*, because they must or because they want to.

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that the fossil record may be less incomplete than Darwin thought and that there may have been long periods of relative stasis in natural history, interrupted by short moments of widespread and accelerated evolutionary change. The implication would be that evolution advances not continuously, but in fits and spurts.

Obviously, the Thelen and Streeck ideal types fall far short of settling the issue of how to distinguish real from trivial institutional change; but then, they may render the distinction meaningless. While they establish that gradual change may have transformative effects, nowhere do they imply that *all* gradual change is of this kind. Nor do they rule out the possibility that social systems may sometimes break down under the impact of exogenous shocks, causing the kind of rapid shift toward a radically new structure that is captured, albeit unjustifiably privileged, by Krasner's punctuated-equilibrium model of institutional change. In fact, as I have shown empirically (Streeck 2009), gradual change may accumulate over time until a tipping point is reached where an institution suddenly breaks down. In Marxist-Hegelian language, this is when "quantity" turns into "quality," which is one of the defining characteristics of what used to be called "dialectical" change.<sup>7</sup> In evolutionary biology, this type of change appears as a version of the punctuated-equilibrium model, where rapid change is caused by a slowly increasing discrepancy between a changing environment and an ecological system's adaptive capacity, or by a slow accumulation of internal tensions that finally cause a system to break down (Eldredge 1985).<sup>8</sup>

Further below I will argue that the question of whether an observed change amounts to fundamental systemic change cannot be decided in the abstract, but only in the context of a substantive theory of the historical social order in which it takes place. Here I simply note that in hindsight, the most important contribution of the Thelen and Streeck models may be that they systematically introduce *time* into institutional analysis. To the extent that institutionalist punctuated-equilibrium models sharply distinguish between rapid real change and "relative stasis or path-dependent change" (Krasner 1988: 74), time is, just as in neoclassical economics, essentially irrelevant. How long the periods of stability between the critical moments of punctuation last depends exclusively on contingent events that have nothing to do with how long they have already lasted, and the moments during which a system is reorganized are conceived as so infinitesimally short that they can ideally be considered as taking no time at all. In the Thelen and Streeck models, by contrast, institutions are, in principle, *always in transition*, with periods of stasis, if they occur at all, being so exceptional and short as to be negligible for theoretical purposes. In fact, conversion and layering (and later drift, displacement and exhaustion) are defined as *processes* for which *time is of the essence*: They take place *in time*, and their effects accumulate *with time*. *Time matters* for them, but it matters *all the time* and not just once in a while, since institutional change is basically conceived as an unending process of *learning* about the inevitably imperfect enactment of social rules in interaction with a complex and unpredictable environment.

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7 The notion of dialectical change may be seen as reconciling Krasner's punctuated-equilibrium model of change with the newer idea of gradual transformative change, with the latter slowly accumulating until a tipping point is reached.

8 I owe this insight to Renate Mayntz.

Introducing time into institutional analysis – analyzing *institutions in time* – implies, among other things, that an important property of an institution may be its *age*. The longer an institution has been around, the more likely it is, everything else being equal, to have changed through layering or conversion, drift or displacement – certainly through exhaustion, and very likely through other, similar mechanisms. From here, it is not a long way to the notion that social institutions may be affected not just by the *chronological time* that has passed since their inception, but also by their *location in historical time* – i.e., in a more or less orderly succession of historically unique, contingent conditions and events. Taking this only a small step further and stretching the point somewhat, it appears that time passed may itself and as such be something like a driver and even a *cause* of institutional change. In fact, I suggest that it is precisely a conceptual framework like this, one in which time figures as a privileged explanans,<sup>9</sup> that distinguishes a *dynamic* from a *static* perspective on the social world in general and on institutional change in particular – a perspective that is complex enough to accommodate any combination of gradual and disruptive change as well as to distinguish between trivial and nontrivial change on substantive rather than formal grounds.

Moving from a static approach to institutional theory to a dynamic one has deep ontological implications, which I can only touch upon here. The main point is that structures, or systems, must be re-conceptualized as processes, and as irreversible ones if only because by occupying the time they take, they consume it once and for all, making it impossible for alternative processes to realize themselves in the same time-space.<sup>10,11</sup> How demanding it is to include time in an analytical framework, for the social world

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9 Or in which what the applicable explanatory principles are depends on how much time has passed since the beginning of time, or the inception of the system. I understand that this is now common wisdom in cosmological physics.

10 For an example see Streeck (2009), Chapter 8. Irreversibility is the essence of historicity. What it means is illustrated by colloquial observations such as that you can turn eggs into scrambled eggs but not *vice versa*, or that you cannot put toothpaste back into the tube once it is out. A more respectable example is the second law of thermodynamics, or the law of increasing entropy, according to which differences in temperature, density and pressure in a closed system tend to even out over time, gradually and inevitably replacing order with disorder unless the process is halted from outside the system. The second law of thermodynamics is central to the work of the young Max Planck. Like the cosmological theory of an expanding universe, it may serve to show that biology is not the only natural science with an historical concept of the world. For an interesting attempt to apply the notion of entropy to the organization of societies – where entropic tendencies are strongly present but can be pushed back by collective mobilization – see Etzioni (1968).

11 Irreversibility does not, of course, mean that, for example, a transition from a military dictatorship to a democracy cannot in a colloquial sense be reversed, with the military returning to power. However, for the time in which democracy prevailed, nothing else can *ex post* be inserted in the historical stream of events. What has historically happened cannot be undone – which also means that there can never be an exact return to a past condition, as the memory of what happened in between will always be present. A military dictatorship that has returned after having overthrown a democracy is not the same as a military dictatorship following, say, a foreign occupation.

just as for any other, is illustrated (or so it may seem) by the difference between the three-dimensional Newtonian and the n-dimensional relativistic concept of space. The former is essentially time-invariant, regardless of all the motion going on inside it; the latter not only changes with time but is also, as the unfortunately unintelligible Einsteinian metaphor has it, “bent” into it. Of course, the ultimate witness for a dynamic, processual perspective on the world is the ancient Greek philosopher Heraclitus of Ephesus (540–475 BC), who unfortunately was not dubbed “the Obscure” already by his contemporaries for nothing. Even Plato, in the *Kratylos* dialogue, had to guess what Heraclitus had really meant to say:

Heraclitus, I believe, says that all things go and nothing stays, and comparing existents to the flow of a river, he says you could not step twice into the same river.<sup>12</sup>

Institutional analysis in Heraclitian fashion would assume that, as time passes, the social world continuously changes, not just ephemerally but fundamentally: constantly developing new properties and functioning according to ever-changing principles.<sup>13</sup> The idea that one cannot step in the same river twice would have to be translated to mean that the historical process alters not just the *properties* but the *property space* of institutions and social orders, by turning variables into constants and constants into variables, redefining variable ranges, resetting parameters, introducing new kinds of units, and undoing or reversing causal links between properties as well as creating new ones. What happens changes the rules that govern what happens next, confronting actors at any given time with a world that is in part unexplored and will have changed further by the time it could, perhaps, be understood. Although this not only sounds metaphysical but in fact is, examples abound in the real world of politics and economics of events

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12 The shortest aphoristic formulation of Heraclitus’ “flow theory” consists of only two words: πάντα ρεῖ, everything flows. It comes not from Heraclitus himself, but was attributed to him only a few hundred years later. Interestingly, Heraclitus was also one of the first dialectical theorists. Fragment DK B10 posits: “Connections: things whole and not whole, what is drawn together and what is drawn asunder, the harmonious and the discordant. The one is made up of all things, and all things issue from the one.” Goethe wrote two poems about Heraclitus, appropriately titled *Dauer im Wechsel* (Continuity in Change) and *Eins und Alles* (One and All). As always, he captures the core of the matter, and as always in irresistibly beautiful language. The second of the two poems brings together the two central Heraclitian themes, change and contradiction: “Es soll sich regen, schaffend handeln, / Erst sich gestalten, dann verwandeln; / Nur scheinbar stehts Momente still. / Das Ewige regt sich fort in allen: / Denn alles muß in Nichts zerfallen, / Wenn es im Sein beharren will.”

13 As we will see, the fundamental question for any theory of social development is how these principles differ and whether they, in any meaningful sense, evolve over time. Originally modern social science was, of course, closely associated with the idea that as societies “progress,” their development gradually ceases to be governed by natural laws and is increasingly controlled by laws made by people themselves. Humans have always made their own history, Marx wrote, but without knowing what they were doing; so history asserted itself behind their backs, governing their fate like an alien force. With the arrival of science, however, they can understand the forces that control them, and if they understand them, they can replace them with their collective will. Up to a short time ago, this figure of thought was the implicit premise of all social science, Marxist or not. For an arbitrary selection see Kerr (1960) and Etzioni (1968).

Table 1 Two kinds of change

	<i>Static change</i>	<i>Dynamic change</i>
<i>Property space</i>	Constant Universal	Historical Periodic
<i>Direction</i>	Reversible Fluctuating	Irreversible Sequential
<i>Source</i>	Exogenous-contingent	Endogenous-dialectical Exogenous-contingent
<i>Mode</i>	Punctuated equilibrium	Incremental Crossing of thresholds
<i>Mechanism</i>	Short sharp shocks	Imperfect reproduction Time & age: Layering, conversion, drift, exhaustion etc.

and developments that have irreversibly rewritten the rules of cause and effect and re-defined in an unforeseen way the realm of what is and is not possible: the combined liberalization and globalization of capitalism in the last two decades of the twentieth century; the privatization of council housing by the Thatcher government, which profoundly changed British electoral politics in favor of parties with a conservative program; the introduction of social security in the United States, which created an active clientele strong enough to make social security politically sacrosanct (Campbell 2003); the self-destruction of Keynesian reflationary demand management as firms came rationally to expect ever-lower interest rates and ever-stronger fiscal stimulus; the slowly accumulating effects of solidaristic wage policies, increasing the pressure on firms to break away from multi-employer bargaining (Streeck 2009: Ch. 2, *passim*); the gradual accumulation of public debt, reaching a point where the settlement of distributional conflicts by public dispensation of future resources becomes self-limiting or impossible; etc. (Streeck 2009: Ch. 5).

Returning to my starting point, if the social world and its institutional order are, and ought to be, conceived of as inherently dynamic, it no longer makes much sense to distinguish between trivial and transformative institutional change. Instead, the question becomes whether our models of that world and the heuristics we apply in exploring it are capable of doing justice to its dynamic, historical-relativist nature, or whether they abstract from it for the sake of simplicity and convenience and organize it into a property space that is static or Newtonian.<sup>14</sup> This question also applies to the study of institutional change, which we can imagine to be taking place within either a static or a historically dynamic set of parameters. Indeed, just as Newtonian mechanics can, even after the relativist revolution, still be usefully applied for limited purposes, a treatment of institutional change as fluctuation in a constant world – as *static change*, as it were – may often be sufficient, provided we restrict our theoretical ambitions. We should be aware, however, that findings generated in this way hold true only as long as one can afford to neglect their dynamic-historical context.

14 For a similar argument see Arthur (1994: 11f., 27f.).



Summing up so far, static and dynamic concepts of institutional change may be compared as follows (Table 1). A static approach assumes that the “laws governing the production and exchange of the material means of subsistence in human society” (Engels 1947[1878]) apply at all times and everywhere. A dynamic approach, by contrast, recognizes time – and historical time in particular – as a force that is continuously reshaping institutions and the properties that define them. Where the institutional property space and the causal relationships existing within it are conceived as constant and universal, individual institutions may change under the impact of changes in antecedent conditions, but there is nothing to prevent such conditions from returning to their former state and thereby reversing the change they have caused. Static change, in other words, knows no direction and is in principle always reversible. This is different from dynamic, historical change, whose location in an irreversible sequence is a defining characteristic. Furthermore, in a static perspective on change, institutions and social orders are as such considered stable, and change occurs only if: it is forced on them from the outside; the source of change is exogenous and its nature is contingent; the mode is that of Krasner’s punctuated equilibrium; and the mechanism is unpredictable shocks strong enough to require structural adjustment. Dynamic change, by comparison, is fundamentally endogenous, as social orders are assumed to change on their own and from within under the impact of time: for example, as inherent contradictions mature. Like time, change proceeds incrementally, although there may be occasional fits and spurts where critical thresholds are crossed; and the central mechanism of institutional change, as pointed out, is the imperfect reproduction of institutions in the process of their enactment in time. Further down, I will return to some of the se themes.

## 2 Institutional development

I have argued that a conception of institutional change as static – reversible, fluctuating and contingent – cannot do justice to the historical nature of social structures, that is to the fact that they are, at a minimum, located in an irreversible sequence of events and affected by the passage of time. But how can we conceptualize the historically dynamic character of social arrangements? What pattern, if any, is governing the continuous transformation of the properties of social arrangements? Does the historical process within which institutional change must be assumed to be taking place have a direction? The concept that inevitably comes to mind here is that of “development” – a core concept, of course, of nineteenth- and twentieth-century social theory precisely because of its close association with the philosophy of history and the notion of progress. As previously noted, today’s social science mostly prefers to be agnostic in this respect, and has instead taken refuge in an ahistorical, Newtonian image of its object world. If that image, however, is found to miss essential aspects of the world, as I argue in the case of institutional change, it is impossible to avoid reopening the issue of whether and in what ways historical change may be governed by an underlying logic that in one way

or another might be characterized as development. This is particularly true if we follow Engels' advice and specify the conceptual framework of historical-institutionalist analysis to fit the historical social formation of capitalism – a formation whose study has always been closely associated with the notion of development.

Table 2 The concept of development

	<i>Development</i>
<i>Property space</i>	Cumulative unfolding ("unwrapping") of embryonic pattern
<i>Direction</i>	Upward-growing
<i>Source</i>	Endogenous dynamic trumps exogenous contingencies
<i>Mode</i>	Continuous passing of successive thresholds and stages Maturation
<i>Mechanism</i>	Improved reproduction (learning)

The concept of development is found in both the Latin and the Germanic languages, and interestingly, the basic meaning is always the same – in *développement* (French), *sviluppo* (Italian) and *desarrollo* (Spanish) as well as in *Entwicklung* (German) or *ontwikking* (Dutch): the gradual release of something out of an "envelope" – a hiding and confining condition, or a condition of being rolled or folded together. Development takes place where something that is already present *in nuce* comes out of a cover by which it was concealed and compressed, and starts gradually to unfold (Table 2). In

fact, it seems as though the notion of development is inseparable from that of growth: As something is unwrapped in the course of its development, it becomes bigger; and as it grows, it changes not only in size but also in structure, governed by rules of growth that were already present but not yet fully expressed in earlier, less developed stages. In fact, "development" in modern, non-literal usage means orderly, regular, endogenous transformation in a process of growth controlled from within and proceeding according to a predetermined pattern, or *Bauplan*.<sup>15</sup> In this sense, development has mostly positive connotations – as in child development, human development, economic development or social development – and tends to be identified with improvement and advancement. Its direction is imagined to be essentially forward and upward, with simultaneous growth and change driven from within (Table 2). Thus nineteenth-century social science has posited an ultimately universal transition from "lower" to "higher" or from "primitive" to "advanced" societies – see, for example, Durkheim's theorem of increasing "dynamic density" causing functional differentiation (Durkheim 1964[1893]); Spencer's account of history as steady progress from status to contract (Spencer 2003[1882]); or Weber's grand narrative of a worldwide spread of occidental rationalism (Weber 2002[1904/5]).<sup>16</sup> Similarly, after the Second World War, theories of "modernization," or "industrialization," assumed the presence of an irresistible endogenous force in contemporary societies that moved them in a specifically "Western" direction, at least once the seeds of "development" – whatever they were believed to be

15 The German word, *Bauplan*, has come to be used in evolutionary biology to refer to the overall design of an organism. For more on evolution, see below.

16 I treat Marx's account of "capitalist development" as a special case, for reasons that will be explained further down.



– were sown and the necessary “take-off” (Rostow 1990[1960]) had set the process in motion. Soon it became common in United Nations parlance to distinguish between “developed” and “underdeveloped” countries, the latter soon to be renamed “developing.” Conceptually, development involved the continuous crossing of thresholds and the passing into successive stages of a process of maturation, in which societies learned to reproduce their social order in ways that made it continuously less traditional and more modern: i.e., more prosperous, equitable, efficient, democratic and autonomous (Table 2).

What remains of the concept of development as a tool for understanding historical change if we leave behind postwar modernization theory and its obviously highly ideological connotations? I believe that today, the fundamental problem associated with any conceptualization of history as development is the inherent linearity and determinism of the implied process of transformative growth once it has started. Underlying this is a sense that development is controlled by a preset, fixed endpoint toward which it is targeted – a future condition that is already present in embryonic, unfinished form in the current condition, which it strives to leave behind in order to realize itself. Development, in other words, is at its core a teleological concept: That which develops is pulled forward by a future state unfolding itself inside and through its present state. Earlier stages contain later stages in unfinished, preliminary form, as in the growth of an organism from embryo to fully “developed” adult. As the developing organism matures, it continuously passes thresholds, and while crises are possible, the way they are resolved is also basically predetermined. The target, the *telos*, the *Ziel* is engraved into the process and is never in question: In fact, it is both the endpoint and the driver of the historical process through which it materializes.

History conceived as development, then, is a front-loaded process governed by a pre-established final condition. This is why the notion of development has rightly – and, I believe, irredeemably – fallen into disrepute in the social sciences: It construes the social world in a deterministic fashion and leaves no space for agency and choice, conflict and contradiction, risk and uncertainty, and for creative invention and reinvention of the future as it unfolds. In many ways, developmentalism suffers from the same problem as did orthodox Marxism at the beginning of the twentieth century: If history is self-driven and progress is inevitable and self-sustained, why not just wait until it has completed itself? If this seems unacceptable for reasons of practical experience and theoretical plausibility, the next question is whether rejecting teleological theories of historical change forces us to accept the nihilistic position that history is nothing but a chaotic sequence of reversible fluctuations. Is there something else beyond teleology other than accident and disorder?

### 3 A note on evolution

One way of addressing this question is by looking for a theoretical model of dynamic historical change in which the passage of time is a causal force; events and conditions are conceived as historically unique; and change, while driven by causes rather than pulled by effects, is intelligibly patterned. The concept that suggests itself here is that of *evolution*. Interestingly, the etymological origin of the word is very close to that of development. In Latin, *evolutio* means the unrolling of a scroll. Over time, the concept became linked to the notion of growth accompanied by a successive emergence of more complex structures, and in this sense, it did in fact become partly synonymous with the concept of development. Remarkably, its first application to natural history is found in the writings of Charles Darwin's grandfather, Erasmus Darwin (1731–1802), although its modern usage was defined only by his grandson's epoch-making treatise on the origin of species (Darwin 2004[1859]).

There have been innumerable attempts, both famous and infamous, to import Darwinian evolutionism into social science. To avoid a long albeit exciting discussion, I will simply suggest that there are several connotations of the concept of evolution as it is used today in evolutionary biology that are less than helpful, and in fact sometimes deeply misleading, when employed in the study of social order. Among the misapplications of biological-evolutionary theory to the social world are the following three in particular:

(1) *Sociobiological naturalism, or reductionism*, which suggests that social structures and social action are an expression of biologically anchored, genetically hard-wired behavioral programs inherited by humans through the long line of descent from their ancestors in the animal kingdom. Such programs, all of them supposedly geared toward securing the survival of the species – or of a particular genetic strain within it – are imagined to function like a collective subconscious that is the deep cause of human behavior and social arrangements, even where the latter are perceived by the actors involved in very different, non-biological, non-instinctive, normative terms. Trying to explain human action and the social structures it gives rise to by inherited instincts, as for example in the now-fashionable discipline of “behavioral economics,” misses their wide, “un-natural” diversity over time and in space, a diversity that Adam Smith already knew arises not from nature, but from individuals growing into and being shaped by the social structure of the division of labor (Smith 1993[1776]).<sup>17</sup> In the real, historical world, it is this socially and culturally generated diversity that makes the difference that matters, not its biological substructure that has long lost its capacity to determine what humans do.<sup>18</sup>

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17 To learn by experiment that in a “dictator game,” people tend to follow norms of fairness rather than maximize what economists believe is their utility, is much less interesting than the question how the boss of a private equity fund can come to believe that it is right for him to maximize his profits by depriving other people of their employment and their families of their livelihood.

18 In the course, apparently, of an evolutionary process that gradually replaced instinctive behavior with normatively based, intentional action (Gehlen 1986).

(2) *Adaptive functionalism*, which posits that any trait exhibited by a species can and must be explained as a product of adaptation. Adaptation occurs through intergenerational selection, in the course of which a structure gradually changes to become optimally capable of contributing to successful reproduction under conditions of a general “struggle for existence.” Mainstream evolutionary biologists take this to mean that explanation of any structure observed in the real world requires the production of an “adaptive story” showing the structure to be a superior solution to a problem faced in competition for reproductive opportunities (Gould/Lewontin 1979). Especially when applied to society, the logic of this approach leads to a Panglossian functionalism,<sup>19</sup> which posits that the mere fact that something exists means that it must be optimal for the fulfillment of some functional requirement, even if that requirement has yet to be detected (Gould/Lewontin 1979). Theory, then, is the identification of the task for the performance of which an observed condition represents an optimal solution. As far as the social sciences are concerned, it is in particular, but by no means only, efficiency and equilibrium theories that tend to exhibit a Panglossian logic.<sup>20</sup>

Nevertheless, even evolutionary biologists have noted that functionally backward explanations, or inductions, are highly dubious. The problem is not just that it is logically possible to invent an adaptive story about everything (Gould/Lewontin 1979). In addition, as Darwin already knew, the fitness of an organism can be assessed only in relation to its historical environment and the contingent challenges that environment happens to pose.<sup>21</sup> Assuming *a priori* that an observed structure must be perfect or ideal, and from there interpolating the purpose that it perfectly and ideally serves, may therefore be deeply misleading.<sup>22</sup> In part, this is because when finding new solutions to newly arising problems, nature must work with the available organic material, which subjects evolution to what Gould and Lewontin (1979) call “phyletic constraint,” mak-

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19 Dr. Pangloss is a character in a satirical novel by Voltaire, *Candide, ou l'Optimisme* (1759). His is a Leibnizian rational-deductive optimism, as expressed in his favorite dictum, “All is for the best in the best of all possible worlds,” a philosophy which he continues to assert in the face of the most deplorable conditions and events. The logic he invokes – which Voltaire ridicules while Leibniz considered it a satisfactory solution to the problem of theodicy – is that the existing world is the *only* world that exists, and since only one world *can* exist it is the *only possible* world. If only one world is possible, then, the world that exists must be the best world in the universe of N=1 possible worlds.

20 For more on this see Streeck (2009), especially Ch. 13.

21 “As natural selection acts by competition, it adapts the inhabitants of each country only in relation to the degree of perfection of their associates ... Nor ought we to marvel if all the contrivances in nature, be not, as far as we can judge, absolutely perfect; and if some of them be abhorrent to our idea of fitness ... The wonder indeed is, on the theory of natural selection, that more cases of the want of absolute perfection have not been observed ...” (Darwin 2004[1859]: 507f.) See also the example of the bug Darwin discovered on an island that contained almost no flying insects. Apparently its ancestors had been those mutants of a former species that were not very good at flying. The better fliers were regularly driven into the sea by the strong winds, and they became extinct. Fittest for the “struggle for existence” were those individuals that were least fit for flying.

22 For instructive examples see Gould and Lewontin (1979).

ing the structures it creates less adapted to their purpose than they might ideally be if they could be designed “from scratch.” If a land-going animal returns to the sea, as did the ancestors of the whales, it cannot redevelop gills instead of lungs, even though gills would be much better adapted to its new-old environment. There is also the possibility that an observed structure is *not yet* or *no longer* optimally adapted and is still in the process of evolving toward optimality or, to the contrary, dying out – possibilities that biologists may feel they can discount because of the geological time periods with which they are dealing. Social scientists, however, are concerned with comparatively very short time spans, during which it is not only possible but in fact likely that whatever structure they observe is still struggling to find its optimal form, if at all, and may in fact, due to fast-changing external conditions, be chasing a moving target, or several moving targets at once, without ever reaching something like equilibrium.

(3) *Social Darwinism*, which is a prescriptive political ideology that stipulates that free markets and laissez-faire economic policies are optimal institutions for economic and social progress. They are believed to be that because they seem best to replicate the Darwinian “struggle for existence,” through which nature eliminates less “fit” individuals from procreation and thereby continually improves and progressively optimizes the properties of organisms and species. Note that the key phrase of Social Darwinism, “survival of the fittest,” was not coined by Darwin but by the sociologist and philosopher Herbert Spencer (1866–67), who was certainly the most influential Social Darwinist. Darwin approved of the phrase when he read it and later adopted it, as it accorded with his deep-seated Malthusian convictions that had influenced his view of natural history early on.

Social Darwinism prescribes that we must design the institutions that organize our societies in such a way that they eliminate the weak, so as to make space for the strong, and with them for the steady improvement of individuals and continuous progress of society. Spencer believed that unfettered free markets were best suited to give the best the free reign they need and deserve. Being able to make choices, however, human societies may decide that the character traits that are “fittest” for a competitive market are not the only ones that they may want to cultivate in its members as they “struggle for existence.” While Spencer used Darwin to argue that this would be unnatural and therefore a mistake, there is nothing in Darwinism as such that would prevent a society from rewarding not just greed but also, say, solidarity.<sup>23</sup>

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23 A variant of Social Darwinism is the economic, rational-choice version of neo-institutionalism. In rational-choice theories of institutional change, alternative solutions to problems of economic efficiency are, as it were, experimentally generated by and within societies, where they then compete in a market for institutions in which the most efficient solution is selected and retained. The result is linear progress to ever higher efficiency, a process one could, with Weber, describe as “rationalization.” Underlying assumptions include that institutions are created and maintained to be efficient solutions to economic problems; that efficiency is ultimately the only value societies wish, or should wish, to institutionalize; and that there is something like a perfect market for institutions. The conceptual difficulties of rational choice institutionalism are laid

Outside of sociobiological reductionism, Panglossian adaptive functionalism, and Spencerian free-market Social Darwinism, however, there are a number of elements in Darwinian evolutionary theory that appear highly suitable for import into a dynamic theory of institutional change, provided that the limits of the parallels between the two are kept in mind and inappropriate analogies are avoided:<sup>24</sup>

(1) The variation-cum-selective-retention model of natural history offers a concept of historical change that is distinctly non-teleological – i.e., not conditioned on the presence of a provident and all-powerful designer guiding change to a preconceived end. In Darwinism properly understood, variation is stochastic from the perspective of existing structures, while retention is systematic without being governed by a predetermined result. As noted, unlike development, evolution is driven by causes, not by effects: It is back-loaded rather than front-loaded. A theory of institutional change constructed on the model of evolutionary theory, therefore, need not assume that the design of an institution is controlled by actors who know what they want and what they are doing, and have the capacity to do it. At the same time, there is no reason to preclude that the mechanism of selection may be one of collective-political decision-making, operating on the random variations produced by imperfect reproduction, just as imperfect reproduction by random variation may be caused by innovative ideas that, by their very nature, deviate in unforeseeable ways from established ideas and received wisdom.

(2) In Darwinian evolution, change is both permanent and gradual, endogenously driven by stochastic imperfections in reproduction as well as exogenously conditioned either by random shocks, such as natural disasters, or by other, parallel processes of gradual change. The theory allows for unpredictable *events* as well as coherent *sequences of events*. Evolutionary natural history accommodates contingency into order that is conceived as historical, suggesting the possibility in turn to think not only of nature but also of history as an evolutionary process.

(3) The non-teleological continuity of evolutionary change – due to randomness of internal variation and exogeneity of selection – makes Darwin's world a genuinely Heraclitian world. Darwinian evolutionary theory can therefore serve as a model for a

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bare by a close reading of the work of one its most prominent representatives, Douglass North. Having started out with a triumphalist efficiency-theoretical account of the transition from feudalism to capitalism, with the introduction of capitalist property springing from a collective desire for higher productivity (North/Thomas 1973), North's more recent work is mainly concerned with explaining the persistence of "inefficient" institutions (North 1990) which, however, are still treated as suboptimal deviations from what institutions really should be, namely rational devices to minimize transaction costs. We suggest that variation in social orders, unlike rational choice institutionalism, is not typically driven by competition between alternative institutions but by the imperfect, or innovative, enactment of extant ones. Moreover, we posit that institutional selection takes place not through competitive markets, but through political conflict and social control, including the reactions of rule-makers to the unruly behavior of rule-takers (Streeck/Thelen 2005).

24 On the following see also Krasner (1988).

processual theory of social systems in which an explainable past and present are faced with an open future. A Darwinian historical-evolutionary perspective better reflects the experience of human actors as historical actors in a historical world than do functionalist or rationalist sociological or economic theories.

(4) Darwinian evolutionism allows for a causal contribution of the passage of time to structural change, just as it reserves a conceptual space for innovation through imperfect, deviant reproduction. In fact, evolutionary theory suggests that innovation is permanent and ongoing, as there can be no perfect replication of any extant structure over time. This is in line with an Heraclitian concept of institutional change, for which the perfect replication of a social institution in its enactment represents no more than a limiting case. Moreover, evolutionary theory appreciates the essentially anarchic nature of innovation, conceiving of it as arising spontaneously and unpredictably from the perspective of the existing order and established practice. Darwinism also understands how processes of *co-evolution* may lead to complex non-linear interactions between the causal forces that shape historical structures and events, which again cannot be predicted. Co-evolution can serve as a model of separate but parallel and interdependent lines of causation and strands of development merging into a broad stream of systemic change through mutual support or mutual subversion.<sup>25</sup> In these and other respects, familiarity with Darwinian theory properly understood may restore to the social sciences their good conscience in construing their object world as historically unique – a good conscience they seem to have lost in their encounter with modern economics and its godfather, eighteenth-century physics.

(5) As already mentioned, Darwinian evolutionism entails a conception of nature as a continuous historical process, in which previous events circumscribe current and future ones. Evolution can only work with and transform material that it has itself produced in the past and inherited from that past. This material is not infinitely malleable – which is captured by the concept of phyletic constraint. New designs meeting new demands must be gradually developed out of old designs adapted to old demands. In an evolutionary approach, structural change results from an encounter between underdetermined and unpredictable innovations and historically grown determining conditions. Its ultimate direction depends on which of the many continuously arising combinations of old and new best meet the challenges and exploit the opportunities inherent in the internal and external environment. The affinity to notions of path dependency in the social sciences is obvious, especially to more sophisticated theories which provide for the possibility of significant change even on an established path, in addition or as an alternative to changing from one path to another. Evolutionary theory also militates against voluntaristic theories of action where the new arises out of nothing, as well as against static conceptions of the world as a constant universe, in which change can be undone at any time if the factors that have caused it disappear.

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25 See Streeck (2009), Ch. 7.



(6) Finally, also as indicated, Darwinian evolutionism in its pluralist version allows for less-than-optimal structures caused by, among other things, phyletic constraint, transitional disequilibrium, survival of historical adaptations that have become useless, and the purposeless reproduction of slack structures with no function at all. Functionalist explanations apply only to a limited range of phenomena. The message for the social sciences is that outside of adaptationist Darwinian dogmatism, for which organisms are by definition optimally rationalized reproduction machines, evolutionary theory is *not* an efficiency theory, which among other things makes it illegitimate for neoclassical economics to justify its foundational assumptions by anchoring them in evolutionary biology. Rather than providing a template for a functionalist efficiency-theoretical account of the world, evolutionary biology in its non-fundamentalist, pluralist version (Gould 2002) conceives of adaptation as embedded in and interacting with a historical context that cannot itself be explained as an outcome of rational construction aimed at maximizing efficiency. In this way, evolutionary biology can be read as encouraging a historical approach to institutions and institutional change that allows for historical as well as rational-functionalist explanations of observed conditions and understands the limits of rationalization and functional explanations within evolving structures and processes.

Darwinian evolutionism, that is to say, may serve as a model for a theory of institutional change in several ways. It provides an example of a non-teleological but nevertheless intelligible account of history in which the future is not predetermined, leaving space for human agency. It identifies imperfect reproduction as a source of continuous gradual change, and thereby defines a place where a (micro-)theory of action might be inserted into a dynamic (macro-)theory of social order. It elaborates a processual view of the natural world which seems eminently transferable to the social world; it introduces time as a central variable in a theory of nature, by implication suggesting its inclusion in theories of society as well; it demonstrates how path dependency may be accommodated in a non-teleological theory of change, recognizing the causal significance of past events for present and future ones; and when read correctly, it is fundamentally subversive of an efficiency-theoretical construction of historical structures and processes, making space for explicit recognition of the role of non-efficient or non-rational forces in the evolution of social order.

At least one major issue remains unresolved, however, which is the question of the direction of historical change or, for that matter, of development. The nineteenth century and Darwin himself as a matter of course considered evolution to be a more or less linear progression of “development” from “lower” to “higher” forms of life, its crowning peak being *homo sapiens*. “Higher” forms of life were more composite organisms that combined an ever-larger number of heterogeneous parts into a complex, organic, well-coordinated whole. Note that this was exactly the way Durkheim defined his “higher,” “advanced” societies, based on organic as distinguished from mechanical solidarity (Durkheim 1964[1893]). But just as the social sciences dissociated themselves from the notion of progress in the second half of the twentieth century, so too did evolutionary biology with the emergence of the neo-Darwinian synthesis. In fact, the way this happened

was very similar, as the discovery of the genetic base of inheritance and mutation caused something like a micro-analytical turn in evolutionary theory comparable to the search in neoclassical economics for a universal, ahistoric, theoretical “micro-foundation.” In the new mainstream of evolutionary biology, it was the gene – now characteristically described as “egoistic” – that became the agent of combat in the “struggle for existence.” Organisms turned into vessels used by opportunistic genes to secure their survival at the expense of less well-entrenched competitors (Dawkins 1989). Like actors in neoclassical economics, genes in modern evolutionary biology do not change; they know no progress, and their highest and only goal is survival, for the sake of which they may combine with other genes in composite structures, but only for strategic purposes.<sup>26</sup>

The problem this raises is well known also to macro-sociologists deprived of the notion of development by the relativistic revolution: How can one explain the enormous build-up of complexity over the *longue durée* of history, natural as well as social, culminating in biological evolution in the human brain, and in social evolution in the rise of modern European, American or global society? If survival in competition, of monadic genes or monadic actors, was all that the world was about, how is one to account for the growth of ever-larger and ever more internally differentiated structures, with proportionately growing needs for ever more sophisticated and ever more vulnerable mechanisms of coordination? The ultimate provocation for late-twentieth-century evolutionary biology is the observation that, if the survival of egoistic genes was all that mattered in natural history, there would have been no need whatsoever for life to “advance” beyond the “primitive” condition of bacteria living on the ocean floor, where they have reproduced with unmatched success in basically unaltered form since the beginning of time. Why make the effort and build ever more complex organisms that are also unendingly more at risk? What is it that drives nature’s, and society’s, apparently endemic quest for continuously rising levels of organized complexity? We may not be able to answer this question unless we are willing to assume that deep within organic matter there is some sort of desire not just for survival, but also for the autonomy, or freedom, that comes with complexity (Neuweiler 2008).<sup>27</sup> Be this as it may, the contemporary debates among evolutionary biologists about whether or not there is something like self-organized direction in evolution, even in the absence of *telos* and design, encourage us as social scientists to no longer suppress the analogous question in social theory: What lies behind the historical “progress” toward more complex and differentiated societies and

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26 There is probably no place for history in a micro-theory. History seems to require interaction between a micro- and a macro-level, through an aggregation process that is more than just additive. Recently evolutionary biologists have suggested that “selfish genes” colonizing the same organism may come in conflict with each other and threaten the survival of individuals and entire species (Trivers 2006). A theory in which a possibility of this kind is provided for has, in principle, space for both history and politics.

27 Renate Mayntz suggests that what we are observing here is a quest for “mastery,” which she regards as specific of and limited to human history and society. But here, too, we may want to look for gradual rather than categoric differences and for continuous rather than discontinuous change.



social-institutional orders, and why is there an apparent tendency for segmental societies to become linked into composite ones over time, and for simple social structures to become more complex?

#### 4 Capitalist development

I will now proceed to argue that some of the historical specifications required for a dynamic theory of contemporary institutions, or a theory of contemporary institutional change, development, or evolution, may be contributed by a concept of capitalism as a system, or process, of social action. By capitalism as a system of social action, or as an institutionalized social order, I mean a specific set of institutions accommodating a specific, regularized actor disposition (*habitus*, character) and a specific distribution of resources, or powers of agency. I do not claim that an account of contemporary society as a process of capitalist institutional development will explain everything, nor of course will it be capable of predicting the future. All it can aspire to, I believe, is to serve as a heuristic indicating where to look first and what to look for when trying to understand institutions and institutional change in the modern political economy. In fact, given the central role of human agency in history and society, anything other than a heuristic providing observers and actors with a checklist to work through when trying to come to terms with the social world may be impossible anyway.

In the following I will suggest a list of what I think could be elements of an institutionalist account of capitalism and capitalist development capable of founding a historically grounded comparative analysis of contemporary political-economic institutions and their change. The critical reader will note that the list is still rather syncretistic and in dire need of systematic revision and completion.<sup>28</sup>

(1) Capitalist development may be conceived as a process of expansion of market relations as the privileged, normal mode of economic exchange and social intercourse (Table 3) – of competitive contracting at prices that fluctuate with changes in the relation between supply and demand. As capitalism develops, market exchange gradually takes the place of older forms of social relations, in particular ones based on obligations of reciprocity. The widening, or spatial spread, of markets coincides with their deepening, or intensification, as more and more social spheres and an increasing range of “necessaries of life” (Smith 1993[1776]) become commodified – i.e., subsumed under a “self-regulating” price mechanism driven by actors’ self-interest, and made available in exchange for “*bare Zahlung*” (Marx/Engels 1972[1848]). The spread of market relations over ever-new territorial spaces and social spheres, metaphorically characterized

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28 I have introduced some of the following points at greater length in my book, *Re-Forming Capitalism* (Streeck 2009).

Table 3 Development and capitalist development

	<i>Development</i>	<i>Capitalist development</i>
<i>Property space</i>	Cumulative unfolding ("unwrapping") of embryonic pattern	Unfolding & expanding of market relations and extended reproduction
<i>Direction</i>	Upward-growing	Sideward-growing
<i>Source</i>	Endogenous dynamic trumps exogenous contingencies	Endogenous pressures for capital accumulation ("profit")
<i>Mode</i>	Continuous passing of successive thresholds and stages Maturation	Discontinuous sequence of subversion and restoration of order
<i>Mechanism</i>	Improved reproduction (learning)	Competitive innovation

by Rosa Luxemburg (Luxemburg 1913) in her theory of imperialism as a process of *Landnahme* (land grabbing), continuously and irreversibly changes the property space of social orders and gives direction to their evolution. In the process ever more previously parochial, or particularistic, social relations are linked into ever more encompassing, increasingly universal contexts (Marx and Engels' "completion of the world market" by the "bourgeoisie," as anticipated in the *Manifesto* of 1848).

(2) Capitalist *Landnahme*, the widening and deepening of market relations, is associated with a continuous restructuring of a society's apparatus of social regulation and coordination. (This is a notion well-known to sociologists, since Durkheim, in the *Division of Labor* (Durkheim 1964[1893]), linked the transition from mechanic to organic solidarity to increases in a society's size and density.) In the language of institutional analysis, the institutional change that comes with market expansion may be conceived in terms of a dialectical conflict between two types of institutions, obligatory and voluntaristic, or historically inherited and freely contracted (Table 4). Elsewhere (Streeck 2009) I have called the two types Durkheimian and Williamsonian, respectively.<sup>29</sup> They correspond to two kinds of social order, one public and the other private. Liberal progressivism, first and foremost Herbert Spencer (Spencer 2003[1882]), has described and still describes the expansion of markets as a long-term historical process replacing obligatory with contractual institutions – as an escape from traditionalism and as progress toward economic rationalization and political liberation. Durkheim, of course, argued that the regime of free contracts governing the division of labor could unfold only inside a society inherited, inevitably, from tradition: The *order of freedom* must remain "embedded," to use the key concept of contemporary economic sociology, in an *order of obligation*. Unlike what is suggested by the various Robinsonian founding myths of modernity, even under capitalism society is not a *product* of competitive contracting but its *precondition*.

29 In some of the institutionalist literature they appear as competing conceptualizations – rational choice vs. historical-sociological – of institutions in general (Hall/Taylor 1996).

Table 4 Two types of political-economic institutions

Durkheimian	Williamsonian
Public order	Private ordering
Obligational	Voluntaristic
Exogenously imposed	Endogenously contracted
Authoritative organization	Voluntary coordination
Creation of obligations	Reduction of transaction costs
Third party enforcement	Self-enforcement
Government	Governance
Status	Contract

Source: Adapted from Streeck (2009: 15).

A world constituted by contract – a Spencerian liberal utopia – is to Durkheim, in Polanyian language, no more than a “frivolous experiment” that is doomed to fail.<sup>30</sup> In any case, the distinction between Durkheimian and Williamsonian institutions seems to offer an appropriate template for studying institutional change and the transformation of social order in societies driven by the dynamic of an expanding capitalist market.

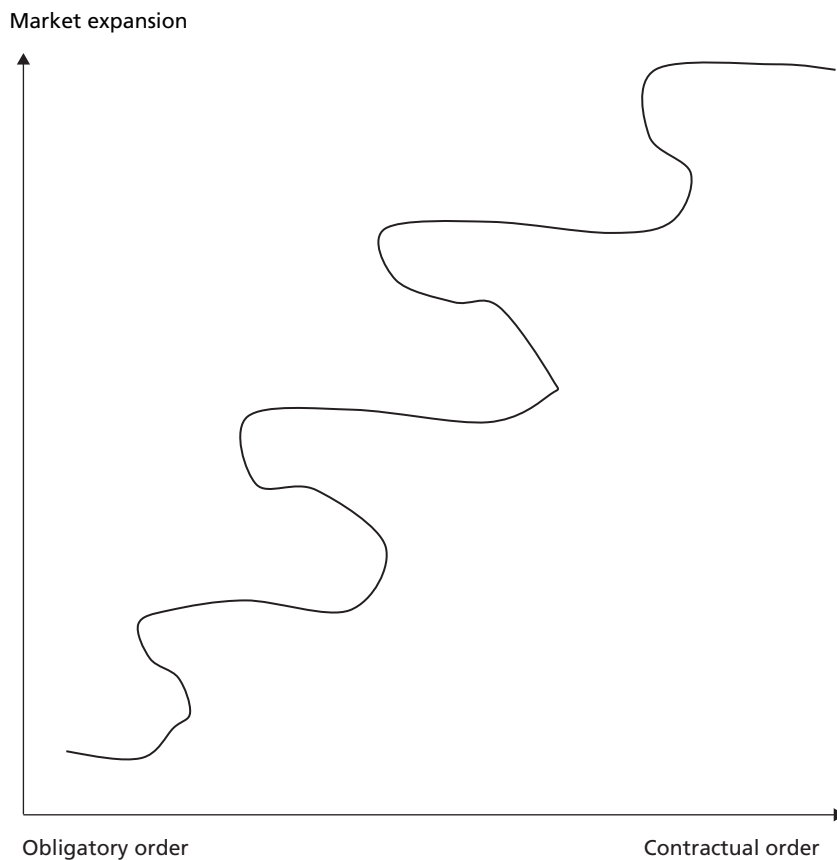
(3) In a more substantive sense, social institutions under capitalism must circumscribe productive uncertainty with protective solidarity, as uncertainty must be contained for the sake of both the functioning of the market and the stability of its surrounding society. As theorists from Marx to Polanyi have pointed out, self-regulating markets permanently destabilize social structures as they continuously and unpredictably reset relative prices. This is ultimately why they cannot replace social regulation but in fact must be subjected to it. Nevertheless, as markets expand they self-destructively eat into and threaten to replace non-market institutions, causing permanent tension at the borderline between the encircled market system trying to break out of its social containment, and the non-contractual institutions containing it. Even though markets cannot function without solidarity, they undermine and consume it, and as they advance call forth pressures for a restoration of the non-utilitarian, obligational bases of social order.<sup>31</sup>

(4) The distinction between Durkheimian and Williamsonian institutions yields a substantive concept of politics in capitalism as a struggle over the periodic reorganization of institutionalized social obligations in response to advancing contractual order, market expansion, and commodification. Societies with a market system residing inside them like a restless incubus must defend themselves against the market trying to break through and get out, a drive endemic in the logic of *Landnahme* regardless of the fact that outside of a surrounding society market systems could not function. Politics under capitalism, then, can be expected to be about the successive subversion and reorganization of public order, driven by the anomic and entropic tendencies emanating from

30 This is nicely summarized in Joseph Schumpeter’s famous dictum, “No social system can work which is based exclusively upon a network of free contracts between (legally) equal contracting parties and in which everyone is supposed to be guided by nothing except his own (short-run) utilitarian ends” (Schumpeter 1975[1942]: 417).

31 In the form, for example, of employment protection legislation or, more generally, political and social rights (Marshall 1965[1949]).

Figure 1 Political cycles in capitalism



self-regulating markets, and also about the de- and reconstruction of normatively institutionalized limits on the egoistic-rational pursuit of interests.<sup>32</sup> A possible sequence of gradual market expansion, the liberalization and contractualization of institutions, and the periodic reorganization of public order in “political moments” (Streeck 2001) is shown in Figure 1.

(5) Studying institutional change as capitalist development provides institutional analysis with a substantive micro-foundation in a theory of social action that is far more complex and meaningful than, in particular, a theory of “rational choice.” A firmer historical grounding of historical institutionalism, with capitalism “brought back in,” makes for a richer model of the actor in what has been called “actor-centered institutionalism” (Mayntz/Scharpf 1995). In particular, the notion of capitalist development may be associated with the advance of a typically opportunistic, non-traditionalist, individualistic, rational-egoistic, and utility-maximizing actor disposition. “Opportunism with guile” (Williamson 1987), as definitive of the *homo oeconomicus* of economic theory, represents the normalized ethos in the enactment of institutions in a historical context, in

32 This is at the core of what Marx called “class struggle.”

which a competitive breach of solidarity is in principle socially licensed and can never in any case be prevented or ruled out, and where restricting competition is fundamentally less legitimate than engaging in it (Streeck 2009: 242ff.). Capitalist institutions must assume, and thereby encourage, a utility-maximizing disposition on the part of actors, given that any compact between potential competitors may at any time fall apart if only one market participant is no longer satisfied with an average customary profit, and in breaking away threatens the survival of the others unless they retort in kind.

(6) Actors in capitalism, therefore, given their characteristic non-traditionalist restlessness, appear *constitutively devious* from the perspective of the institutions that are supposed to govern them. The typical rule-taker in capitalism is a rule-bender: He reads rules entrepreneurially, i.e., “in bad faith,” incessantly looking for ways of interpreting them in his favor. Typical capitalist actors are rational-utilitarian exploiters of gaps in rules, in a culture that fundamentally approves of innovation in rule following, if not in rule violation, and has few legitimate means to enforce informal traditional standards of good faith. Creative enactment or non-enactment of rules may, after all, be an important source of profit, and can routinely be justified as a necessary preemptive defense against elimination by competition. Interactions between rule-makers and rule-takers (Streeck/Thelen 2005) assume a specific flavor in capitalism that makes them specifically capitalist, with actors assumed and expected to be

fundamentally unruly: a permanent source of disorder from the perspective of social institutions, relentlessly whacking away at social rules, continuously forcing rulers to rewrite them, and undoing them again by creatively exploiting the inevitable gap between general rules and their local enactment (Streeck 2009: 241).

(7) This being so, while social order is always and inevitably imperfectly enacted, imperfect enactment under capitalism may be expected to be biased and to exhibit a specific substantive “spin,” in the direction of liberalization and privatization, and indeed of “disorganization” from the perspective of obligatory institutions. Creative reinterpretation of public order to replace it with private ordering may be construed as the micro-level dynamic at the base of the macro-level process of market expansion, giving historical definition to the general notion of unpredictable mutation in the production and reproduction of social structures. What is mutation for the evolution of life is the innovative individually-rational pursuit of advantage through competitive contracting for capitalist development. The resulting institutional dynamic is likely to be particularly visible at the border between market and society, where social institutions condition and limit market exchange. Again competition seems to be the driving force, as competitive contracting is assumed *a priori* to be legal, whereas “conspiracy against free trade” is *a priori* under suspicion of being illegal unless it is explicitly legalized; if it is, however, it is exposed to competitive subversion just as any other rule. As pointed out, the power of competition to shape social relations derives from the fact that one individual is in principle enough to break up solidarity, whereas preventing competition requires collective action and, in principle, full cooperation among all potential competitors.

(8) Another mechanism that biases capitalist institutional change in the direction of market expansion and liberalization, as well as imparting a specific bias on political struggles over reorganization of collective order, is the differential endowment of classes of social actors with resources, which is correlated with a differential distribution of behavioral dispositions. *Unruly opportunism* tends to come together with *resourcefulness*, or vice versa, jointly giving rise to “continuous pressures on and within institutions that slowly and gradually subvert Durkheimian social obligations while expanding the realm of voluntary, utility-maximizing action and Williamsonian social arrangements” (Streeck 2009: 240). While imperfect reproduction of institutions is a general feature of all social orders, different groups have characteristically different incentives and capacities to circumvent institutionalized rules or challenge their received meanings. An example are large firms who hire lobbyists to influence or change legislation, or tax lawyers that are

just one category of specialists in creative reinterpretation of formal social obligations for the purpose of avoiding them in a legally unassailable way. Creativity in such a context typically involves studied absence of “good faith,” in the sense of a determined rejection of shared informal understandings on the meaning of the norm in question, combined with ... an “undersocialized” attitude of skillful instrumentalism in relation to social rules in general. (Streeck 2009: 240f.)

Thus specification of contemporary institutional change as a process of capitalist development<sup>33</sup> opens a prospect for a dynamic theory of social order free of teleological determinism and linear progressivism (Table 4). Moreover, conducting institutional analysis, comparative or not, in the heuristic context of capitalist development helps avoid excessive abstractification and formalization that would deprive theory of substantive-historical content. In particular, analyzing institutional change as capitalist development specifies the nature of the unfolding in time of the property space of institutional theory as a process of market expansion and advancing commodification, with competition, and the pressures it creates for maximizing the return on invested capital, as a driving force. Furthermore, by assigning a central place to conflict and discontinuity, the notion of capitalist development accommodates political action by situating it in an endemic tension between solidaristic traditionalism and self-interested innovation. It also draws attention to the endemic fragility of an institutional context that is continuously undermined by actors whose very capacity to act depends, paradoxically, on its continued existence. By grounding itself in a concept of capitalist development, contemporary political economy – the analysis of globalization and liberalization and of the crisis that followed both – would be usefully enriched by a historically concrete model of political-economic actors and of the relationship between actors and the institutions that embed them.

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33 Characterized in Streeck and Thelen (2005) with reference to the 1990s as “liberalization,” and in Streeck (2009), following Polanyi (1957[1944]), as a conflict between the expansion of markets and political efforts at their social containment.

## 5 A brief summary

A dynamic perspective on institutions and on the social world in general seems vastly preferable to a static one. A dynamic theory of society locates its objects in an irreversible flow of time, thereby recognizing their historical nature and uniqueness. Change appears both permanent and incremental, with the most important changes in human conditions related to or caused by the passage of time.

Recognition of time as a constitutive element in and of social structures draws new attention to the notion of *development* that was omnipresent in nineteenth-century social science but later came to be abandoned in favor of abstract analytical universalism and timeless generalization. Historical periods like the present one, in which history seems to move faster than before, cast doubt on the applicability and usefulness of representations of the social world as a set of immutable causal mechanisms. Doing justice to the historicity of social facts without falling back on nineteenth-century ideas of historical determinism or linear progress may be made possible by a fresh reading of theories of *evolution*, which explain change as an interaction between spontaneous variation within a historically inherited repertoire of possibilities and a set of external conditions that are themselves in constant flux.

Modeling the dynamic of the contemporary social world and its political economy as a process of *capitalist development* seems to be a promising way of specifying the forces and mechanisms driving institutional change today (Table 5). In particular, the notion of capitalist development identifies the expansion of market relations as the main source of change in extant forms of institutional coordination. It also suggests a specification of the relationship between actors and institutions that fills the empty spaces caused by over-generalized concepts of action, like rational choice, or by neglect of the need for a micro-foundation of macro-sociological theorizing. Most importantly, theories of capitalist development give historically concrete definition to the process of innovation effective, in principle, in all social structures, by spelling out the particular logic and accounting for the particular bias inherent in the dynamically imperfect reproduction of a capitalist social order. And finally, the notion of capitalist development explicitly provides for tensions, conflicts and contradictions in historical institutional change, specifying the nature of such conflicts as being over the extent to which society can insist on social obligations outside the voluntarism of a free pursuit of interests through competitive innovation and private contractual ordering.

Table 5 Institutional change and capitalist development

	Static change	Dynamic change	Development	Capitalist development
Property space	Constant Universal	Historical Periodic	Cumulative unfolding ("unwrapping") of embryonic pattern	Unfolding & expanding of market relations and extended reproduction
Direction	Reversible Fluctuating	Irreversible Sequential	Upward-growing	Sideward-growing
Source	Exogenous- contingent	Endogenous-dialectical Exogenous-contingent	Endogenous dynamic trumps exogenous contingencies	Endogenous pressures for capital accumulation ("profit")
Mode	Punctuated equilibrium	Incremental Crossing of thresholds	Continuous passing of successive thresholds and stages Maturation	Discontinuous sequence of subversion and restoration of order
Mechanism	Short sharp shocks	Imperfect reproduction Time & age: Layering, conversion, drift, exhaustion etc.	Improved reproduction (learning)	Competitive innovation



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